

A close-up photograph of a person's hand holding a silver pen over a laptop keyboard. In the foreground, there is a notebook with a white page and an orange cover. The background is softly blurred, showing a window with natural light. The title 'Taxing Questions' is overlaid in white text.

# *Taxing* Questions

# Here's a look at how the new tax law could affect you and your pharmacy

By Scott W. Sykes, CPA, CGMA

The Tax Cuts and Jobs Act of 2017 passed by Congress and signed by President Trump is sure to have an impact on the retail community pharmacy industry. The following are a few of the key changes that could potentially impact you and your pharmacy.

**There is a flat tax rate of 21 percent for C Corporations.** This could be a positive change for the C Corporation pharmacy, as the top rate is 39 percent. A change of this magnitude may cause some pharmacy owners to consider changing from S Corporation tax status to C Corporation status. A strategy like this is sure to require in-depth tax planning and analysis outside the scope of this article.

**Domestic production activities deduction has been eliminated for tax years after 2017.** If your pharmacy is heavy into compounding (greater than 10 percent +/- of all revenues), this tax deduction was or should have been a positive tax strategy for you and your pharmacy. This deduction is eliminated completely for tax years after 2017 unless you are a C Corporation. For C Corporation taxpayers, this is eliminated effective for tax years after 2018.

**Deductions for certain entertainment expenses have been repealed for amounts paid or incurred after 2017.** Starting in 2018, no deductions are allowed for expenses related to any type of

entertainment, amusement or recreation activities. This provision would also repeal expense deduction for activities that require membership dues such as business clubs or gyms. The law does keep the 50 percent deduction for meals as long as there is a business purpose that is directly attributable to your pharmacy business.

**The UNICAP Section 263A gross receipt test increased from \$10 million to \$25 million.** For those pharmacies that have gross receipts or total revenues more than \$10 million, you probably are aware of the complex UNICAP 263A provisions. This provision is essentially a tax increase, whereby the Internal Revenue Service requires the eligible pharmacy to capitalize expenses into inventory, which ultimately increases your net taxable income. An increase in the gross receipt limitation is certainly a positive benefit for the pharmacy owner — and the certified public accountant.

**Pass-through pharmacy entities such as S Corporations, LLCs, sole proprietors, and partnerships will be eligible for the deduction for qualified business income starting after 2017.** The deduction is up to 20 percent of your qualified business income, but unfortunately it's not as simple as it seems. The limitations and phase-outs are complex and will require in-depth analysis and calculations to determine the impact to you and your

pharmacy. Regardless, the average pharmacy owner will likely be able to take advantage of this valuable deduction starting after 2017.

## **Automobiles will see an increase in depreciation starting after 2017.**

The limitation on automobiles is a headache for pharmacy owners looking to purchase delivery vehicles. But with the new tax law, the average pharmacy delivery vehicle will have a first year depreciation expense of \$10,000, up from the current \$3,160.

**Bonus depreciation or Sec. 168 (k) expensing has been expanded and modified.** This will allow pharmacies to write off 100 percent of new and used eligible property in the year placed in service, through 2022. Section 179 depreciation — which also allows a 100 percent write off of eligible property placed in service — has been modified to include qualified real property as eligible for immediate expensing.

The Tax Cuts & Jobs Act will certainly require enhanced planning and tax strategies beginning in 2018. Up-to-date real-time accounting will be more important than ever to fully implement and understand changes for the new laws.

Certain provisions mentioned in this article are subject to limitations and exceptions. We recommend you consult with your CPA to determine how these may impact you and your pharmacy specifically. ■

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